6 March 2025

Pepco Group N.V.
2025 Capital Markets Day

Pepco Group, the growth-focused variety discount retailer, which owns the Pepco and Dealz brands in Europe and Poundland in the UK, is today hosting a Capital Markets Day investor presentation. At the event, Chief Executive Officer Stephan Borchert and the leadership team will outline the strategic vision for the Group. Today's CMD presentation is an in-person event commencing at 1.30pm GMT, hosted in London, UK. A recording will be made available on the Group´s corporate website after the event.

HIGHLIGHTS

- Focus on the Pepco brand as the single future format and engine driver of Group earnings
- Simpler structure to drive shareholder value, leveraging Pepco's price leadership, higher margin clothing/GM offer, and 'white space' opportunities in Central, Eastern and Western Europe
- Strategic move away from FMCG: Board is actively evaluating all strategic options to separate Poundland from Group during FY25, including a potential sale, while managing Dealz Poland to optimise value in the medium term
- Group CEO Stephan Borchert will assume responsibility for running Pepco, with Barry Williams permanently appointed MD of Poundland
- Capital allocation: Board has authorised a share buyback capability of up to €200m to be available for use during FY25-FY27

Stephan Borchert, Chief Executive Officer of Pepco Group, said:

"We are taking clear strategic action to focus on the Pepco brand as our single future format, to move away from FMCG and create a simpler business focused on higher margin clothing and general merchandise. Pepco will continue to be the engine of the Group's earnings potential, and its strong customer offer and price leadership give it a compelling 'white space' opportunity to drive further profitable growth in its Central and Eastern European heartland, as well as select markets in Western Europe.

"The Board and I are actively exploring separation options for Poundland, including a potential sale, from the Group, with consideration also given to the separation of the well-performing Dealz Poland over the medium term. Barry Williams did a great job as Managing Director of Pepco, returning it to like-for-like sales growth, and I am confident he will play a pivotal role in getting Poundland back on track, given his previous success there.

"Our latest trading period – with continued positive Pepco like-for-like sales – reflects the brand's momentum and underpins our focus on the business that accounts for the vast majority of the Group's earnings and our highest returns on capital. In addition, the authorisation of a share buyback capability of up to €200m*, which the Board can make use of from time to time, reflects the confidence over the strong current and future cash generation of the Group, and desire to drive shareholder returns."*

PEPCO – THE CORE FOCUS

Pepco generates the vast majority of the Group's earnings and the highest returns on capital – and we plan to further build on that strong base ultimately as a single pan-European format. Our core Pepco CEE business remains the key engine driver for the Group and generated the majority of the Group's EBITDA in FY24.

We see significant 'white space' to open stores and continue growing the Pepco format in CEE, as well as select Western European countries, including in Spain and Italy. The Group also sees a tangible opportunity to augment its customer loyalty, data analytics and interactions with customers to better understand when, how and why they shop with Pepco.

Our new strategic framework will be centred around the five strategic pillars below, which will be discussed in more detail at the CMD presentation:

- Simplify and streamline the Group portfolio
- Refocus and digitise Pepco's customer proposition to further drive like-for-like sales
- Continue to grow our topline through measured expansion in the CEE region
- Execute and validate our growth strategy in select Western European markets
- Upgrade our core operating platform

Poundland: Seeking separation from the Group

Pepco Group's ultimate ambition is to operate under a single Pepco format, oriented around our higher margin Pepco clothing and general merchandise ranges.

Pepco Group has over the last few years sought to integrate the operations of its three brands (Pepco, Poundland and Dealz) with the aim to move to a simpler business model with one brand, one range and one team. We strived to transition at speed to one business with a unified customer offer and a single sourcing strategy, with the expectation this would bring both scale and efficiency benefits.

However, it has become clear over the last 12 months that this integration has not delivered for customers or shareholders. The FMCG-led businesses have been a drag on the Group's financial performance, with lower revenue growth, lower gross margins, higher costs to operate and, consequently, lower profitability and returns on invested capital compared to Pepco.

Poundland is a strong brand that serves millions of customers every week and had c. €2bn annual turnover in FY24, but it is also operating in an increasingly challenging UK retail landscape that is only intensifying. From April 2025, the UK government's additional tax changes announced in the Budget will also add further pressure to Poundland's cost base.

Therefore, the Board is actively evaluating all strategic options to separate Poundland from Group during FY25, including a potential sale.

Dealz – considering medium-term divestment options

Dealz has been performing well so far this year. Despite a tough food retail market in Poland, Dealz is carving a strong reputation for international branded goods at the best prices. It offers 3,000 products across 18 categories and has growing brand awareness among the younger 18-45 age groups. The business is becoming increasingly self-sufficient across its management team and supply chain.

The Group will continue to manage the business to optimise value, with the ultimate aim of exploring strategic options for the business, including a potential divestment, over the medium term.

OTHER STRATEGIC ACTIONS

To simplify the business, and to focus on the stronger returns and higher margins delivered by our standard Pepco format, the Group will cease the Pepco 'Plus' format in Iberia (Spain and Portugal). This will result in the conversion of the majority of Pepco Plus stores to the standard Pepco format by the end of FY25. Overall, we operate 118 stores, accounting for 3% of overall Pepco stores. Our Pepco Plus format has created additional complexity for our operations in order to offer FMCG product, leading to higher levels of capex deployed and providing a distraction for management versus our core clothing and GM categories.

The Group is also today announcing a strategic review of the Pepco Germany business. Pepco currently operates 63 stores in the country, but the business has very lower revenue densities, as well as the highest operating costs across the portfolio. The Group will consider all options for the Pepco German business and will provide an update at the appropriate time.

LEADERSHIP CHANGES

To realise the strategy outlined above, we are making several leadership changes. Group CEO Stephan Borchert will assume full responsibility for running the Pepco business, supported by a strong executive team, which includes recent hires such as Willem Eelman as Group CFO (previously GrandVision, C&A, Unilever), Hugo Van Santen as Pepco CFO (previously at Renault Group and Unilever), Viola Schimansky as Chief Human Resources Officer (previously at ALDI Nord and AON), Pablo De Ayala as Chief Information Officer (previously at Avolta and Dufry Group) and Jorge Gervasi as Operations Director Western Europe (previously Douglas and GrandVision).

Barry Williams, former Poundland Managing Director, who took over as Managing Director of Pepco in September 2023, will return to the Poundland business to permanently take up the position of Managing Director of Poundland. These changes take place with immediate effect.

CAPITAL ALLOCATION UPDATE

At the full year results in December 2024, the Group laid out its capital allocation framework, which is centred on maintaining a strong balance sheet and ensuring the business operates with an ample level of liquidity. Where the Group generates excess cash, we will continue to prioritise investment to grow its business organically, consistent with attractive returns on capital. We highlighted that any surplus capital identified over time may be returned to shareholders by further dividends and/or share buybacks, subject to the Board's discretion and shareholder approvals.

The Board today announces that it has authorised a share buyback capability of up to €200m to be available for use during FY25-FY27. This will allow the Board to consider the potential buyback of shares from time to time in accordance with the relevant authorisation from the General Meeting. Further announcements will be made if and when appropriate.

CURRENT TRADING

In the second financial quarter to date, Group like-for-like sales are up by 1.5% in the 8 weeks to 2 March 2025, with a strong performance from Pepco and Dealz offset by continued challenges at Poundland.

Pepco has delivered like-for-like sales growth ahead of its first quarter performance supported by double-digit volume growth and improved availability across all stores. Poundland continued to experience a negative like-for-like sales performance, impacted by similar trends seen in the last financial year, with an underperformance of all categories. Dealz continued to deliver positive like-for-like sales with a strong performance in both food and GM.

OUTLOOK

We remain confident that Pepco Group will deliver profitable growth during the year, driven by further operational improvements and enhancement of the core customer proposition, supported by a continuing strong gross margin position. The Group expects the Pepco business to see FY25 underlying EBITDA (IFRS 16) year-on-year growth in the high single digits.

For Poundland, challenging trading conditions continue to impact profitability, with a more difficult sales environment and consumer backdrop in the UK, alongside margin pressure and an increasingly higher operating cost environment. As a result, we now expect Poundland to deliver FY25 underlying EBITDA (IFRS 16) of between €50m to €70m during the current financial year.

FORTHCOMING DATES

The Group intends to issue H1 interim results for the six months ended 31 March 2025 on 22 May 2025.

ENQUIRIES

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